

VZCZCXYZ0010
RR RUEHWEB

DE RUEHCV #2181/01 3181953
ZNY CCCCC ZZH
R 141953Z NOV 07
FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC 0094
INFO RUEHBO/AMEMBASSY BOGOTA 7583
RUEHLP/AMEMBASSY LA PAZ NOV LIMA 0889
RUEHQT/AMEMBASSY QUITO 2703
RUCPDO/DEPT OF COMMERCE
RHEBAAA/DEPT OF ENERGY
RHEHNSC/NSC WASHDC
RUMIAAAA/HQ USSOUTHCOM MIAMI FL

C O N F I D E N T I A L CARACAS 002181

SIPDIS

SIPDIS

ENERGY FOR ALOCKWOOD AND CDAY
NSC FOR JSHRIER

E.O. 12958: DECL: 11/09/2017
TAGS: [ECON](#) [EINV](#) [ETRD](#) [VE](#)
SUBJECT: THE BRV PUTS THE BRAKES ON CAR IMPORTS

REF: A. BOGOTA 7785
[1](#)B. CARACAS 2144

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

[1](#)1. (C) Summary: On October 31, the BRV issued a resolution requiring all auto importers to obtain a license from the Ministry of Popular Power for Light Industry and Commerce (MILCO) for vehicle imports. The resolution also stipulates that all imported and locally assembled vehicles must run on both gasoline and natural gas. The new policy gives the BRV nearly complete discretion in awarding import licenses and will likely hurt local producers, importers, and consumers since the BRV lacks the natural gas infrastructure to carry out this resolution. End Summary.

Venezuela's New Auto Import Requirements

[1](#)2. (U) On October 31, the BRV published in the official gazette the new requirements to import assembled vehicles to Venezuela. Beginning on January 1, the new auto import regime will require importers to solicit a license from the Ministry of Light Industry and Commerce (MILCO) for authorization to receive foreign exchange for the importation of assembled vehicles. According to the new policy, the approval of these licenses will depend on "national need, the capacity of national production, plans to expand local production, model cost, historic sales, and the efficient use of fuel." To apply for this license, auto companies have until November 30, 2017 to provide MILCO with their "national production plan" and their "vehicle importation plan." The resolution also mandates that auto assemblers in Venezuela purchase more than 50 percent of the auto parts from local producers by 2013. Currently auto assemblers purchase approximately 33 - 35 percent of parts from local producers who often use imported components.

[1](#)3. (U) Article 10 of the new auto regime requires all vehicles, both import and those assembled in Venezuela, to run on natural gas and gasoline interchangeably. Despite vague wording in the gazette that led to confusion as to what types of vehicles would have to comply with this resolution, Minister of Popular Power for Energy and Petroleum (MENPET) and President of DVSA Rafael Ramirez, has said all new vehicles sold in Venezuela after January 1 must have a pre-installed natural gas converter kit. MENPET and PDVSA have imported 50,000 natural gas converter kits from

Argentina and will distribute them to assemblers for free. Despite vehicle sales reaching nearly 500,000 in 2007 Ramirez said PDVSA only plans on importing 100,00 kits in 2008. He added that if there was a need for more kits, PDVSA would simply import more.

Deciphering the BRV's Motivation

14. (U) The BRV has said the new resolution will increase domestic production of vehicles. However, the stimulus for this change likely was recent press reports that approximately 66 percent of the cars sold in Venezuela were imported in 2007. Although Chavez has said numerous times that this is not a "Hummer revolution," the Commission for the Allocation of Foreign Exchange (CADIVI) has allocated USD 3.1 billion for the auto sector, making it the number one recipient of foreign exchange in 2007. Ramirez also told the local press that PDVSA loses USD 0.14 for every gallon of gasoline it sells in Venezuela and that domestic gasoline consumption was 600,000 barrels per day (b/d), 52,000 more than in 2006.

A Few Holes in the Grand Plan

15. (C) Although President Chavez announced on September 16 ambitious plans to invest USD 18 billion over the next five years to increase natural gas production, Venezuela lacks natural gas for domestic consumption and imports natural gas from Colombia (Reftel A). According to Venezuelan daily "El Universal," only 150 of the total 1,800 gas stations in the country sell natural gas. The natural gas kits themselves are extremely heavy. It also appears that the BRV does not have a plan to import a sufficient number of them to meet the market demand. Even with 500,000 cars sold in 2007, the wait to purchase a car in Venezuela is currently six to eight months, which many local analysts believe could increase to two years if the BRV were to limit the number of cars Venezuela imports (Reftel B).

Confusion and Surprise from Auto Industry

16. (C) During a November 6 telephone conversation, Ennio Ortiz, a member of the board of directors for the Venezuela Automobile Chamber of Commerce (CAVENEZ), told EconSpecialist that the new regulations on natural gas kits took them by surprise. CAVENEZ has arranged a meeting with PDVSA and MENPET to discuss the viability of the plan. He believed that the resolution, as it stands, would reduce national production and was not viable in the short to medium term due to the lack of kits and infrastructure.

Comment

17. (C) The new auto import regime clearly signals the BRV's desire to reduce unsustainable gasoline consumption and the amount of foreign exchange allocated for luxury goods, and increase domestic content. According to sources in the auto industry, the plan was made without consulting those who understand the sector and may actually reduce domestic production due to the lack of natural gas dual-use kits available. Almost as worrisome, the BRV now has complete discretion to hand out import licenses for billions of dollars in guaranteed auto sales, increasing the probability of corruption and favoritism. Post will closely follow how the BRV implements this policy.

DUDDY